

Statement From the Virginia Railway and Power Company

Following its policy of frank and open dealing with the public, the Virginia Railway and Power Company desires to state briefly its position on the pending applications of the Richmond and Henrico Railway Company for franchises in the city of Richmond:

The interests at present controlling the Virginia Railway and Power Company acquired such control in December, 1902. A large portion of the properties were then in very bad physical condition as the result of the active competition which had existed for a number of years preceding. In the eighteen months which intervened before the Receivership, those in control advanced over \$2,000,000 in cash, in addition to their original investment, to meet the requirements of the properties, including more than \$500,000 expended for improvement of physical conditions.

In July, 1904, when the properties were placed in the hands of Receivers, the investment of those in control aggregated over \$4,500,000, on which they had received no return and much of which was unsecured. The Receivership lasted five years, during which time the interest on this investment was accumulating at the rate of \$250,000 per annum. In the reorganization, those in control of the property received nothing for their stock and unsecured investments aggregating large sums, and received only common stock for a large portion of their bonds. The bonded debt of the property was cut from \$19,000,000 to \$9,500,000, largely at the expense of the controlling interests. The only hope of recovering their investment was through making the common stock of the new company valuable.

In the face of these conditions, the controlling interests have spent money freely in the development of the properties and have given to this community a service, both in street railway and light and power, unsurpassed in any similar city in this country, and have asked nothing from the city except fair treatment.

In 1900 certain persons in Richmond applied to the Council for a competitive franchise, and pending the hearing thereon the interests at that time in control of these properties paid to those applicants large sums in securities to abandon their application. Some of the parties most largely interested locally in the Richmond and Henrico Railway Company were among the applicants for this franchise.

In 1902 some of the same parties applied for and acquired, in the name of the Citizens' Rapid Transit Company, the franchise now being exercised by the Richmond and Henrico Railway Company. This franchise was extended from time to time and was not exercised for a period of eight years, but stood as a constant obstacle and embarrassment to the reorganization and financing of the properties of this company. The final construction of this line being unnecessary to the public service, constitutes an economic and financial waste without corresponding benefit to the community.

The Richmond and Henrico Railway Company is now applying for four franchises, one to do a light and power business and three for extensions of its railway lines, in which it proposes to parallel for long distances the lines of this company, only a block away.

The Virginia Railway and Power Company is opposing the granting of these franchises on two grounds: (1) that the granting of such franchises is contrary to the interests of the city of Richmond and would not promote its welfare; (2) that it would be unfair and unjust to the invested capital in this company.

1. THE GRANTING OF SUCH PROPOSED FRANCHISES WILL BE CONTRARY TO THE INTERESTS OF THE CITY OF RICHMOND.

In ordinary industrial enterprises not subject to public regulation and control the presumption is in favor of competition. It has become the established policy, however, in all advanced communities with respect to public service corporations to substitute public regulation and control for the more expensive and disastrous method of control through competition.

A private enterprise can discontinue business when it becomes unprofitable. The prices which it charges for its product are in its discretion. If the enterprise becomes unprofitable the owners may change the investment.

The public service corporation is compelled to render the service, and the public through legislative bodies and commissions can require that service and regulate the rates at which it is to be rendered. Competition in such service is therefore unnecessary for the protection of the public and is an economic waste.

This is now generally recognized. At a meeting of the National Municipal League in this city in November the Committee on Franchises submitted a report on a Model Franchise for street railways, in which it said:

"While we do not favor the granting of a street railway franchise that is exclusive in legal form, we do believe it to be for the best interests of all concerned that the entire street railway system of a given community should be operated as a unit under one comprehensive franchise. In other words, we favor a practical though not a strictly contractual monopoly. We would even go so far as to suggest the advisability, under certain conditions, of a practical consolidation of the street railway and the electric light, heat and power systems, because of the economies to be effected by joint management."

In the report of the Council Committee on Investigation of the gas and light situation in Chicago in 1911, the committee says:

"The history of the gas business in Chicago extends over a period of more than sixty years. During this time there have been incorporated and authorized to operate in this city a large number of independent and competing gas plants. The details of the business development, the number of companies created, the bitter competition which ensued, the struggles of the different companies for existence, the combinations and mergers of interests and the legal warfare in State and Federal courts, are briefly outlined in the historical sketch embodied in this report. One franchise after another was granted to supply the people with gas when the streets already contained mains of sufficient capacity to supply the demand, and plants constructed under then existing franchises possessed ample facilities and were provided with ample capacity to furnish all the gas required. These franchises entirely ignored the incontrovertible fact that gas utilities are natural monopolies and that to authorize additional companies for the purpose of creating or continuing competition only creates economic waste. The most economical construction and operation, the most satisfactory service, and consequently the lowest price for gas, is possible only in the recognition of the economic laws that utilities are natural monopolies and that their duties can best be discharged when the franchise is held by a single company, and that company regulated by proper administrative agents of the public. The best economic thought, substantiated by history in nearly every large American city, is that all efforts to compel competition in public service must terminate in open or secret combination. To authorize several gas utilities to operate in the same city means ultimate duplication of plants and the wasting of capital."

The public service commission of New York has held in a number of cases that in the absence of evidence showing that the existing company was not properly conserving the public interest or that the rates were not fair or that there was some condition which could not be reached through regulation and only through competition, a competitive electric light franchise would be denied.

The Public Service Commission of New Jersey, in a recent case, has refused an application for a competitive franchise of a gas company on the ground that it would only lead to duplication of service and loss and inconvenience to the public where the evidence failed to show that the service was not adequate or that the rates were unreasonable and could not be controlled through regulation.

This principle of a natural monopoly controlled through regulation has been adopted in substantially all foreign countries and in nearly all the Northern States on the ground that competition in public service means unnecessary encumbrance of the streets, unnecessary inconvenience to the public for rendering a duplicate service which one company can render, and means economic waste in duplication of plants while better results can be accomplished at less cost through reasonable regulation and control of public service corporations.

The wisdom of this principle could not be more forcibly demonstrated than in the experience of the city of Richmond in the past twenty years, where competition resulted in enormous economic waste and in serious depreciation of public service properties and the service rendered to the public.

Under the laws of the State of Virginia, the Council of the city of Richmond and the State Corporation Commission are clothed with abundant power to regulate public service corporations of this character and the franchise under which this company is operating its light and power service provides in terms that—

"The Council of the city of Richmond reserves the right to impose such other regulations, conditions and requirements as it may, from time to time, deem proper."

If existing laws are found defective in any respect, they can easily be remedied by legislative action.

In the pending hearing on the application for a light and power franchise the counsel for the Richmond and Henrico Railway Company admitted that the service, both railway and light and power, furnished in Richmond by this company were good, and in answer to direct inquiry admitted that he had heard practically no complaints.

The question having arisen whether the rates charged for light and power current were reasonable, this company offered to pay the cost of an investigation either by visit to other communities or by such other method as the committee might adopt. The committee called on representatives of both parties to furnish evidence as to whether the rates in Richmond were reasonable and fair as compared with rates in other cities similarly situated. After two months of investigation the Richmond and Henrico Railway Company presented the rates in only five cities, and admitted before the committee that from their investigation they believed the rates in Richmond to be fair. This company presented the rates in a large number of cities throughout the United States, from which it was demonstrated that the rates in Richmond are lower than in other cities similarly situated with a few exceptions based upon peculiar conditions which do not obtain in Richmond.

The Richmond and Henrico Railway Company then stated that they were willing to accept a franchise prescribing an 8-cent base rate with the same discounts as now allowed by the Virginia Railway and Power Company on a 10-cent base rate, but when the committee proposed to apply this scale of reduction to both light and power and to all service contracts they earnestly besought the committee not to do so, and the amendment was voted down.

The franchise as proposed, therefore, provides for no lower rates than the present schedule of this company on any class of service.

These hearings have demonstrated that the service in Richmond, both railway and light and power, is adequate and fully up to the needs of the community, and that the rates charged are reasonable and below the general schedules of rates in other communities similarly situated. Can the people of Richmond ask more?

The Virginia Railway and Power Company has sought to keep its properties improved to a state of highest efficiency and well in advance of the public service needs of this community. Since the reorganization in 1909 the company has expended more than \$1,000,000 in improvements, and now has under construction improvements in Richmond as follows:

Addition to power station.....	\$600,000
New office building.....	300,000
Improvements to roadway and track.....	300,000

Total	\$1,200,000
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Proposed steam plant if permitted by the Council	\$200,000
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Total	\$1,400,000
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The company cannot continue to make these improvements and to maintain the high state of efficiency required by the interests of this community if it has to waste its resources in useless fights and competition. It cannot get the money to make such improvements unless it is assured that protection to capital invested which is afforded by other communities similarly situated.

If the company were not furnishing an adequate service at reasonable rates or were disregarding the interests of the community in a way which could not be remedied through the ordinary means of control and regulation, there might be some argument in favor of competition, but competition under the conditions existing and which have been proved to exist in Richmond, only means a duplication of the service already had, a waste of money in competition which is not necessary, a loss to all parties in the end, a discontinuance of the development of the service and a depreciation in the condition of the property or in the service rendered and ultimately the consolidation of the companies, in which a large part of the burden of this unnecessary investment of capital would unavoidably be loaded upon the public for all time.

This is the experience of Richmond, the experience of every other community similarly situated, the inevitable logic of the situation. Other communities have profited by this experience and have refused to grant competitive franchises, relying upon proper regulation and control. Why should not Richmond profit by observation and experience and protect invested capital? The present rates are lower and the service better than in the old days of competition—why go back to the old methods?

2. TO GRANT THESE FRANCHISES WOULD BE UNFAIR TO INVESTED CAPITAL IN THIS COMPANY.

Those controlling the Virginia Railway and Power Company have never asked the people of Richmond any financial assistance, and have only asked fair play.

The right of the Council of the city of Richmond to grant competitive franchises is not questioned, and that right should always be reserved as a final protection to the people of this community.

In the face of the facts which are admitted, however, that the existing company has built up in this community a public service unequaled in any other similar community of the country, has expanded ahead of the needs of the community, even at a loss to itself, has shown proper consideration for the welfare and development of this city, and is subject to regulation and control both through State and municipal bodies, it is earnestly urged that to grant competitive franchises is not only unsound economic policy, but is unfair to the capital invested in the existing company.

The stocks of this company, up to the last two years, have never paid dividends either in the history of the Richmond Passenger and Power Company, the Virginia Passenger and Power Company or the Virginia Railway and Power Company. The common stock, to which the controlling interests must look to recoup their losses through the eight years that they carried and developed these properties without return, is only paying 2 per cent. dividend. It cannot be reasonably expected that the faith of many people in a community will lead them indefinitely to invest money unless they can secure a reasonable return.

In order to make improvements necessary to keep pace with the growth of the community and to contribute to that growth, additional money in large sums must be provided each year and expended in this city. This money cannot be obtained on reasonable rates of interest from the sale of securities unless the capital invested is protected from constant and unnecessary competitive warfare, such as does not exist in other similar communities.

If these franchises are granted, fair competition under any conditions is impossible, for under their provisions the new company is permitted to use the tracks, the poles and the conduits of the existing company, and

the price which it has to pay is fixed, not by the owner of the property, but by arbitrators. The capital invested in these tracks, poles and conduits is large and must be carried by the existing company, and it is inconceivable that any arrangement can be made by which a fair proportion of that investment will be borne by the new company. The result is that the new company comes in to take the business of the existing company free from the handicaps which conditions have imposed in the construction of these works. This is not fair competition.

The present company is carrying an enormous amount of unprofitable construction in the outlying districts of the city and suburbs necessary to the proper growth and development of the community, but unprofitable to the company. To offset this loss, a profit must be derived from the power contracts and business in the central district. This company has at present 142 miles of wire in the suburbs of Richmond outside of the corporate limits, but little of which yields the operating expense. The same condition exists as to railway tracks.

What advantage has come to this community from the construction of the Richmond and Henrico Railway? They are operating on the tracks of this company, or on tracks near and parallel thereto, and they are rendering no service of practical value which the existing company was not already rendering, with the exception of the viaduct on Marshall Street. This company proposed to construct such a viaduct on Broad Street and would have done so if the Richmond and Henrico Company had not been in the field, and the viaduct, if constructed, would have been free and not a toll bridge. Every dollar of toll paid on this bridge is a part of the price that the people of Richmond are paying for this competition.

The new road is admittedly operating at a loss. The people, therefore, have their streets dug up and obstructed with this duplicating service what they they were already getting from the existing company, and the only effect is a waste of time and a waste of money in operating unnecessary cars; and every dollar of loss to the Virginia Railway and Power Company imposed by this competition cripples it to that extent in its efforts to extend its lines and to develop the community. What is the profit from such competition?

The same result will follow the duplication of the lines for light and power service. The present service, both railway and light and power, is adequate. It meets every reasonable requirement of the community. It is operated on broad and liberal lines. There is no assurance of reduced rates or continuing competition.

To duplicate that service beyond the needs of the community only means an economic waste. The loss may fall upon one or the other company for a time, but ultimately history will repeat itself, and both companies will be owned by one interest, and the burden of the additional and unnecessary capital investment and losses in operation will be borne by the community for all time to come.

It is the history of such competitive enterprises that they have often become such a menace to existing enterprise that they have been sold at a profit to the promoters, but it would be difficult to find a case where they have produced any profit to the community served.

These are some of the reasons which we have presented to the committee why these franchises should not be granted. The interests of this company and of the city of Richmond are inseparably interwoven; the prosperity of one means the prosperity of the other; the crippling of one means the injury of the other.

Other communities have adopted the broad and economic policy of substituting reasonable regulation and control for disastrous expensive and impossible methods of competition. The people of Richmond have this power of regulation and control. They must determine whether they will profit by their own experience and that of other communities, or continue a course which is alike disastrous to the city and to invested capital.

We are asking that these franchises be refused, because:

1. There has been and is absolutely no need for competition in either railway or light and power service in Richmond; the duplication of plant and service only means additional cost to the community in the end.

2. The service, both railway and light and power, being furnished by the existing company to the people of this community is adequate, liberal and given at reasonable rates.

3. The company needs all of its resources in the development of its properties and in making improvements and extensions to keep pace with and contribute to the growth and prosperity of this city, and does not desire to waste its resources in useless competitive warfare or in the purchase of other properties, which only mean waste and burden to the community.

4. This company and those in control have invested their capital freely and have dealt fairly with the people of Richmond, and they are entitled to fair, or even liberal, treatment from the city so long as they continue to properly guard the interests of the city and to render adequate public service at reasonable rates.

VIRGINIA RAILWAY AND POWER CO.

By Wm. Northrop, President.